



## India

## ADD (no change)

Consensus ratings\*: Buy 24 Hold 10 Sell 5

|                              |              |
|------------------------------|--------------|
| Current price:               | Rs8,635      |
| Target price:                | Rs10,800     |
| Previous target:             | Rs9,750      |
| Up/downside:                 | 25.1%        |
| InCred Research / Consensus: | 15.6%        |
| Reuters:                     | BJFN.NS      |
| Bloomberg:                   | BAF IN       |
| Market cap:                  | US\$63,504m  |
|                              | Rs5,365,738m |
| Average daily turnover:      | US\$112.4m   |
|                              | Rs9495.9m    |
| Current shares o/s:          | 619.0m       |
| Free float:                  | 45.2%        |

\*Source: Bloomberg

## Key changes in this note

- We cut our previous AUM growth estimates; however, we expect NIM to stabilize from FY26F with largely steady credit costs. RoA to be 4.1-4.4% over FY26F-28F.



Source: Bloomberg

| Price performance | 1M    | 3M  | 12M  |
|-------------------|-------|-----|------|
| Absolute (%)      | (3.5) | 9.5 | 24.7 |
| Relative (%)      | (7.8) | 5.8 | 16.0 |

| Major shareholders      | % held |
|-------------------------|--------|
| Bajaj Finserv Ltd       | 54.7   |
| LIC                     | 2.8    |
| Government of Singapore | 2.6    |

## Research Analyst(s)

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## Bajaj Finance Ltd

‘Price is what you pay, value is what you get’

- Bajaj Finance (BAF) posted an in-line 4Q PAT of Rs 45bn (+19% yoy/+6% qoq) despite rising NIM pressure & high credit costs, offset by tax benefit.
- AUM grew strongly by 26% yoy/5% qoq led by healthy customer addition and strong demand from secured product lines.
- We feel that BAF is undeterred in expanding its market share in retail credit; with a proven execution track record, we retain ADD with a new Rs10,800 TP.

## Selective, strong AUM growth; tilting towards secured/new products

Bajaj Finance or BAF reported an in-line 4QFY25 PAT of Rs45bn, up 19% yoy and 6% qoq, aided by a one-time tax benefit of Rs3.4bn, which was partially offset by rising NIM pressure and higher credit costs. AUM grew at a healthy pace of 26% yoy and 5% qoq led by strong demand for most products and healthy customer addition. There was a strong pick-up in B2C lending, SME lending, commercial lending, mortgages, and gold financing. BAF's management continued to remain cautious, with rural & urban sales finance remaining flat qoq while the ~9% qoq sequential decline in auto financing was in line with running down of the business. Robust customer addition at ~18m in FY25, vs. ~14.5m in FY24, is an indication of the deep-rooted customer service and brand recognition of the company. We believe that innovation, constant review and further diversification of the product portfolio will continue to fuel assets under management or AUM growth.

## Annual refreshing of ECL model pushes up credit costs

Credit costs inched up by ~17bp qoq to 2.33% on account of a one-time higher provision requirement of Rs3.6bn on stage-1 assets, as per the annual refreshing of the expected credit loss or ECL model. This requirement comes on the back of elevated credit costs in the last three quarters and looming macroeconomic risks. Management indicated that credit costs will ease to 1.85-1.95% in FY26F. We believe that in the current uncertain/volatile environment, BAF is better placed with a decent vintage in unsecured loans, well-oiled collection machinery, and stringent underwriting mechanism.

## Outlook and valuation

Further clarity over management transition is appreciated, with Mr. Anup Saha taking over as MD & CEO along with the appointment of three new deputy MDs – Mr. Manish Jain (currently, Head - B2B and FD), Mr. Sidhant Dadwal (currently, President - B2C and SME) and Mr Harjeet Toor (currently, President - Bharat Lending, MFI and Strategic Partnerships). Mr. Rajiv Jain, the ex-MD and CEO's desire to stay within BAF's ecosystem is a sentimental booster. We believe the company's constant greed to outgrow the system, while keeping risk & profitability at the front-end, will set the stage for accelerated growth. Any correction in the stock price sweetens the risk-reward ratio. We maintain our high-conviction ADD rating on BAF with a higher target price of Rs10,800 (Rs9,750 earlier), corresponding to ~4.8x FY27F BV & ~23.4x FY27F EPS. Downside risks: Slowing consumption and a rise in delinquency/credit costs.

| Financial Summary                       | Mar-24A  | Mar-25A  | Mar-26F  | Mar-27F   | Mar-28F   |
|---|----------|----------|----------|-----------|-----------|
| Net Interest Income (Rsm)               | 295,905  | 364,340  | 461,054  | 588,646   | 736,791   |
| Total Non-Interest Income (Rsm)         | 66,673   | 85,200   | 97,284   | 119,965   | 133,562   |
| Pre-provisioning Operating Profit (Rsm) | 239,326  | 300,279  | 377,838  | 493,888   | 615,894   |
| Total Provision Charges (Rsm)           | (46,307) | (79,660) | (89,483) | (109,798) | (133,961) |
| Net Profit (Rsm)                        | 144,435  | 167,617  | 215,689  | 287,299   | 360,486   |
| Core EPS (Rs)                           | 233.71   | 269.98   | 347.41   | 462.75    | 396.45    |
| Core EPS Growth                         | 23%      | 16%      | 29%      | 33%       | (14%)     |
| FD Core P/E (x)                         | 36.94    | 31.98    | 24.85    | 18.66     | 21.78     |
| DPS (Rs)                                | 36.00    | 56.00    | 55.00    | 75.00     | 95.00     |
| Dividend Yield                          | 0.42%    | 0.65%    | 0.64%    | 0.87%     | 1.10%     |
| BVPS (Rs)                               | 1,241.0  | 1,557.4  | 1,848.2  | 2,232.7   | 1,824.4   |
| P/BV (x)                                | 6.96     | 5.54     | 4.67     | 3.87      | 4.73      |
| ROE                                     | 22.0%    | 19.3%    | 20.4%    | 22.7%     | 23.7%     |
| % Change In Core EPS Estimates          |          |          |          |           |           |
| InCred Research/Consensus EPS (x)       |          |          |          |           |           |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

| Rs m                         | 1QFY24           | 2QFY24           | 3QFY24           | 4QFY24           | 1QFY25           | 2QFY25           | 3QFY25           | 4QFY25           | YoY (%)      | QoQ (%)      |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|
| <b>Total income</b>          | <b>83,980</b>    | <b>88,447</b>    | <b>92,989</b>    | <b>97,149</b>    | <b>1,04,185</b>  | <b>1,09,461</b>  | <b>1,16,727</b>  | <b>1,19,168</b>  | <b>22.7%</b> | <b>2.1%</b>  |
| Operating expenses           | 28,544           | 30,100           | 31,567           | 33,028           | 34,709           | 36,390           | 38,670           | 39,493           | 19.6%        | 2.1%         |
| <b>Operating profit</b>      | <b>55,437</b>    | <b>58,347</b>    | <b>61,423</b>    | <b>64,121</b>    | <b>69,475</b>    | <b>73,071</b>    | <b>78,057</b>    | <b>79,675</b>    | <b>24.3%</b> | <b>2.1%</b>  |
| Provisions                   | 9,953            | 10,771           | 12,484           | 13,100           | 16,847           | 19,091           | 20,433           | 23,289           | 77.8%        | 14.0%        |
| CoR (%)                      | 1.5%             | 1.5%             | 1.7%             | 1.6%             | 2.0%             | 2.1%             | 2.1%             | 2.3%             |              |              |
| <b>Profit before tax</b>     | <b>45,512</b>    | <b>47,578</b>    | <b>48,956</b>    | <b>51,051</b>    | <b>52,654</b>    | <b>54,015</b>    | <b>57,654</b>    | <b>56,474</b>    | <b>10.6%</b> | <b>-2.0%</b> |
| Tax                          | 11,143           | 12,070           | 12,566           | 12,806           | 13,534           | 13,877           | 14,572           | 11,018           | -14.0%       | -24.4%       |
| Tax rate (%)                 | 24.5%            | 25.4%            | 25.7%            | 25.1%            | 25.7%            | 25.7%            | 25.3%            | 19.5%            |              |              |
| <b>Profit after tax</b>      | <b>34,369</b>    | <b>35,508</b>    | <b>36,390</b>    | <b>38,245</b>    | <b>39,120</b>    | <b>40,137</b>    | <b>43,082</b>    | <b>45,456</b>    | <b>18.9%</b> | <b>5.5%</b>  |
| <b>AUM</b>                   | <b>27,00,970</b> | <b>29,02,640</b> | <b>31,09,680</b> | <b>33,06,150</b> | <b>35,41,920</b> | <b>37,39,240</b> | <b>39,80,430</b> | <b>41,66,610</b> | <b>26.0%</b> | <b>4.7%</b>  |
| Borrowings                   | 23,78,286        | 26,10,524        | 26,36,727        | 29,33,458        | 31,38,700        | 33,06,550        | 34,39,850        | 35,70,150        | 21.7%        | 3.8%         |
| <b>Gross NPL (%)</b>         | <b>0.9%</b>      | <b>0.9%</b>      | <b>1.0%</b>      | <b>0.9%</b>      | <b>0.9%</b>      | <b>1.1%</b>      | <b>1.1%</b>      | <b>1.0%</b>      |              |              |
| Net NPL (%)                  | 0.3%             | 0.3%             | 0.4%             | 0.4%             | 0.4%             | 0.5%             | 0.5%             | 0.4%             |              |              |
| Provision coverage ratio (%) | 64.4%            | 65.9%            | 61.1%            | 56.5%            | 55.8%            | 56.6%            | 57.1%            | 54.2%            |              |              |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

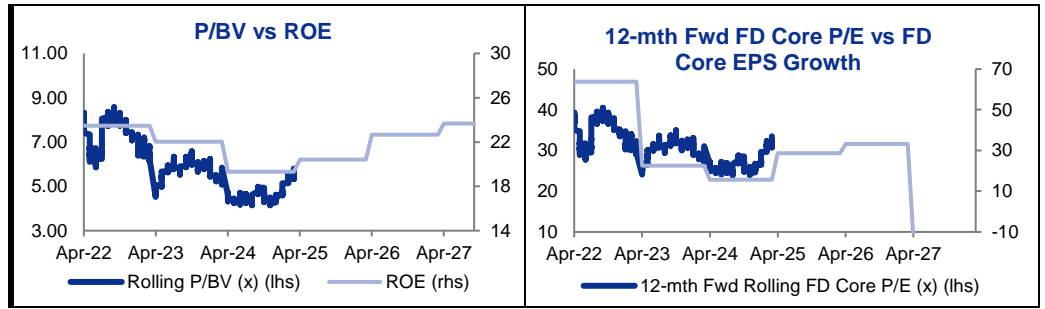
| Y/E Mar (Rs m)       | FY26F     |           |          | FY27F     |           |          | FY28F   |           |          |
|----------------------|-----------|-----------|----------|-----------|-----------|----------|---------|-----------|----------|
|                      | Earlier   | Revised   | % change | Earlier   | Revised   | % change | Earlier | Revised   | % change |
| Net operating income | 5,87,076  | 5,58,338  | -4.9%    | 7,31,495  | 7,08,611  | -3.1%    |         | 8,70,354  |          |
| PPOP                 | 3,96,961  | 3,77,838  | -4.8%    | 5,13,980  | 4,93,888  | -3.9%    |         | 6,15,894  |          |
| PAT                  | 2,33,242  | 2,14,097  | -8.2%    | 2,92,391  | 2,85,263  | -2.4%    |         | 3,57,897  |          |
| EPS (Rs)             | 367       | 346       | -5.7%    | 480       | 461       | -3.9%    |         | 579       |          |
| BV (Rs)              | 1,776     | 1,845     | 3.9%     | 2,168     | 2,229     | 2.8%     |         | 2,668     |          |
| ABV (Rs)             | 1,743     | 1,814     | 4.1%     | 2,121     | 2,185     | 3.0%     |         | 2,610     |          |
| AUM                  | 53,91,027 | 52,52,639 | -2.6%    | 69,17,292 | 66,17,464 | -4.3%    |         | 82,67,123 |          |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 4QFY25 earnings-call highlights ➤

- BAF's management revised downwards its long-term RoA guidance to 4.3-4.7%, and also the RoE to 19-21%, partly to account for the additional capital flow from further mandatory reduction of its stake in Bajaj Housing Finance (BHFL).
- Management gave AUM growth guidance of 24-25% yoy for FY26F, aided by a higher contribution from new lines of business.
- The net interest margin or NIM declined by ~40bp yoy led by pre-emptive lower repricing of unsecured products, while the cost of borrowing remained firm.
- It gave guidance of the cost of funds reducing by 10-15bp in FY26F, although NIM is guided to be stable.
- BAF declared a special dividend of Rs12 per share on account of gains from BHFL's initial public offer or IPO, in addition to the proposed final dividend of Rs44 per share.
- BAF has announced 1:2 stock split and bonus issue of shares in the 4:1 ratio.
- Fee income grew at a slower pace of 1% qoq due to selective downward revision of fees and the discontinuance of co-branded cards.

## BY THE NUMBERS



### Profit & Loss

| (Rsm)                                   | Mar-24A         | Mar-25A         | Mar-26F         | Mar-27F          | Mar-28F          |
|---|-----------------|-----------------|-----------------|------------------|------------------|
| Net Interest Income                     | 295,905         | 364,340         | 461,054         | 588,646          | 736,791          |
| <b>Total Non-Interest Income</b>        | <b>66,673</b>   | <b>85,200</b>   | <b>97,284</b>   | <b>119,965</b>   | <b>133,562</b>   |
| Operating Revenue                       | 362,578         | 449,540         | 558,338         | 708,611          | 870,354          |
| <b>Total Non-Interest Expenses</b>      | <b>(63,960)</b> | <b>(75,083)</b> | <b>(89,349)</b> | <b>(104,539)</b> | <b>(121,265)</b> |
| Pre-provision Operating Profit          | 239,326         | 300,279         | 377,838         | 493,888          | 615,894          |
| <b>Total Provision Charges</b>          | <b>(46,307)</b> | <b>(79,660)</b> | <b>(89,483)</b> | <b>(109,798)</b> | <b>(133,961)</b> |
| Operating Profit After Provisions       | 193,019         | 220,618         | 288,355         | 384,089          | 481,933          |
| <b>Pretax Income/(Loss) from Assoc.</b> |                 |                 |                 |                  |                  |
| Operating EBIT (incl Associates)        | 193,019         | 220,618         | 288,355         | 384,089          | 481,933          |
| <b>Non-Operating Income/(Expense)</b>   |                 |                 |                 |                  |                  |
| Profit Before Tax (pre-EI)              | 193,019         | 220,618         | 288,355         | 384,089          | 481,933          |
| <b>Exceptional Items</b>                |                 |                 |                 |                  |                  |
| Pre-tax Profit                          | 193,019         | 220,618         | 288,355         | 384,089          | 481,933          |
| Taxation                                | (48,584)        | (53,002)        | (72,665)        | (96,790)         | (121,447)        |
| Consolidation Adjustments & Others      |                 |                 |                 |                  |                  |
| <b>Exceptional Income - post-tax</b>    |                 |                 |                 |                  |                  |
| Profit After Tax                        | 144,435         | 167,617         | 215,689         | 287,299          | 360,486          |
| Minority Interests                      |                 |                 |                 |                  |                  |
| Pref. & Special Div                     |                 |                 |                 |                  |                  |
| <b>FX And Other Adj.</b>                |                 |                 |                 |                  |                  |
| Net Profit                              | 144,435         | 167,617         | 215,689         | 287,299          | 360,486          |
| Recurring Net Profit                    |                 |                 |                 |                  |                  |

### Balance Sheet Employment

| (Rsm)                                  | Mar-24A       | Mar-25A       | Mar-26F       | Mar-27F       | Mar-28F       |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Loans/Cust Deposits              |               |               |               |               |               |
| Avg Loans/Avg Deposits                 |               |               |               |               |               |
| Avg Liquid Assets/Avg Assets           | 89.6%         | 90.1%         | 91.3%         | 92.6%         | 93.1%         |
| <b>Avg Liquid Assets/Avg IEAs</b>      | <b>101.7%</b> | <b>102.2%</b> | <b>102.6%</b> | <b>102.8%</b> | <b>101.5%</b> |
| Net Cust Loans/Assets                  | 0.8%          | 0.9%          | 1.0%          | 1.0%          | 1.1%          |
| <b>Net Cust Loans/Broad Deposits</b>   |               |               |               |               |               |
| Equity & Provns/Gross Cust Loans       | 2,423.0%      | 2,218.7%      | 2,025.4%      | 1,882.1%      | 1,732.5%      |
| Asset Risk Weighting                   |               |               |               |               |               |
| <b>Provision Charge/Avg Cust Loans</b> | <b>1.61%</b>  | <b>2.15%</b>  | <b>1.91%</b>  | <b>1.85%</b>  | <b>1.80%</b>  |
| <b>Provision Charge/Avg Assets</b>     | <b>1.42%</b>  | <b>1.89%</b>  | <b>1.70%</b>  | <b>1.66%</b>  | <b>1.65%</b>  |
| Total Write Offs/Average Assets        |               |               |               |               |               |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

| (Rsm)                                     | Mar-24A          | Mar-25A          | Mar-26F          | Mar-27F          | Mar-28F          |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>Total Gross Loans</b>                  | <b>3,294,587</b> | <b>4,122,023</b> | <b>5,256,768</b> | <b>6,624,942</b> | <b>8,280,199</b> |
| Liquid Assets & Invst. (Current)          |                  |                  |                  |                  |                  |
| Other Int. Earning Assets                 |                  |                  |                  |                  |                  |
| Total Gross Int. Earning Assets           | 3,294,587        | 4,122,023        | 5,256,768        | 6,624,942        | 8,280,199        |
| <b>Total Provisions/Loan Loss Reserve</b> |                  |                  |                  |                  |                  |
| Total Net Interest Earning Assets         | 3,294,587        | 4,122,023        | 5,256,768        | 6,624,942        | 8,280,199        |
| Intangible Assets                         |                  |                  |                  |                  |                  |
| <b>Other Non-Interest Earning Assets</b>  | <b>4,675</b>     | <b>9,776</b>     | <b>12,708</b>    | <b>16,521</b>    | <b>21,477</b>    |
| <b>Total Non-Interest Earning Assets</b>  | <b>47,750</b>    | <b>59,369</b>    | <b>71,453</b>    | <b>86,302</b>    | <b>104,619</b>   |
| Cash And Marketable Securities            | 106,240          | 135,435          | 211,531          | 254,500          | 145,255          |
| <b>Long-term Investments</b>              | <b>308,839</b>   | <b>344,441</b>   | <b>347,108</b>   | <b>345,908</b>   | <b>422,318</b>   |
| Total Assets                              | 3,757,416        | 4,661,269        | 5,886,859        | 7,311,653        | 8,952,390        |
| Customer Interest-Bearing Liabilities     |                  |                  |                  |                  |                  |
| Bank Deposits                             |                  |                  |                  |                  |                  |
| Interest Bearing Liabilities: Others      |                  |                  |                  |                  |                  |
| Total Interest-Bearing Liabilities        | 2,933,458        | 3,612,487        | 4,628,100        | 5,765,135        | 7,038,628        |
| Banks Liabilities Under Acceptances       |                  |                  |                  |                  |                  |
| Total Non-Interest Bearing Liabilities    | 57,004           | 59,413           | 111,289          | 160,348          | 254,923          |
| Total Liabilities                         | 2,990,463        | 3,671,900        | 4,739,389        | 5,925,483        | 7,293,552        |
| Shareholders Equity                       | 766,954          | 966,929          | 1,147,470        | 1,386,169        | 1,658,839        |
| <b>Minority Interests</b>                 |                  |                  |                  |                  |                  |
| Total Equity                              | 766,954          | 966,929          | 1,147,470        | 1,386,169        | 1,658,839        |

### Key Ratios

|  | Mar-24A | Mar-25A | Mar-26F | Mar-27F | Mar-28F |
|--|---------|---------|---------|---------|---------|
| Total Income Growth                      | 28.7%   | 23.1%   | 26.5%   | 27.7%   | 25.2%   |
| Operating Profit Growth                  | 25.7%   | 25.4%   | 25.2%   | 28.8%   | 24.0%   |
| Pretax Profit Growth                     | 24%     | 14%     | 31%     | 33%     | 25%     |
| Net Interest To Total Income             | 81.6%   | 81.0%   | 82.6%   | 83.1%   | 84.7%   |
| Cost Of Funds                            | 7.34%   | 7.57%   | 7.40%   | 7.00%   | 6.80%   |
| Return On Interest Earning Assets        | 16.8%   | 16.5%   | 16.3%   | 16.0%   | 15.7%   |
| Net Interest Spread                      | 9.50%   | 8.94%   | 8.93%   | 9.03%   | 8.93%   |
| Net Interest Margin (Avg Deposits)       |         |         |         |         |         |
| Net Interest Margin (Avg RWA)            |         |         |         |         |         |
| Provisions to Pre Prov. Operating Profit | 19%     | 27%     | 24%     | 22%     | 22%     |
| Interest Return On Average Assets        | 9.09%   | 8.66%   | 8.74%   | 8.92%   | 9.06%   |
| Effective Tax Rate                       | 25.2%   | 24.0%   | 25.2%   | 25.2%   | 25.2%   |
| Net Dividend Payout Ratio                | 15.4%   | 20.7%   | 15.8%   | 16.2%   | 24.0%   |
| Return On Average Assets                 | 4.44%   | 3.98%   | 4.09%   | 4.35%   | 4.43%   |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.